# ACCOUNTANCY

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## PROFESSIONAL NOTES

### Waste Paper

The salvage of waste paper has assumed an aspect of national importance in relation to the direct production of munitions. All members of the accountancy profession are asked to clear out useless and redundant records and contribute to the nation-wide collection of waste paper. At the request of the Controller of Salvage, Ministry of Supply, some practical proposals have been made and are set forth on page 43 of this issue. The response of all members of the profession is urgently requested, and they are asked to obtain the co-operation of clients in this direction. Incidentally it is hoped that either the professional Benevolent Funds or war charities may benefit, through the generosity of members, from the proceeds of waste paper sold.

### Disposal of Transfer Deeds

A recent Order in Council should enable company directors and secretaries to make a substantial contribution to the salvage campaign. Companies and their officials are now protected from any liability in respect of transfer deeds destroyed after the lapse of three years from the date when the transfer took effect. The only provisos are that the destruction or disposal must have been carried out in good faith and without notice of any claim to which the deeds might be relevant. Many companies have an accumulation of transfer deeds, which it has been their practice to retain for long periods. In view of the paper shortage the Board of Trade hope that directors will take full advantage of the protection afforded by the new Regulation (S.R. & O., 1941, No. 1,778).

### Adjudication of Transfers

The Commissioners of Inland Revenue have made it clear that the recent Court of Appeal decision in *Robb's* case will not be allowed to have the disturbing effects in practice which would have resulted from a pedantic interpretation of the legal point. The case concerned transfers which convey no beneficiary interest, such as the registration of securities in the name of a nominee or the conveyance of real property from a trustee to a beneficiary. Purely formal transfers of this kind are passed for stamping at 10s. instead of at the ad valorem rate applicable to " voluntary dispositions inter vivos " in the recognised sense. As they were placed on a different footing for purposes of stamp duty, it was assumed that formal transfers would not require adjudication. It is this assumption which was contradicted by the *Robb's*

case decision, and for a time it was thought that registrars would have to submit for adjudication all transfers in their possession which had thus been rendered technically irregular. Since the Commissioners have no intention of changing their practice in any way, however, the point is an academic one, as it is the Commissioners who would have to exact any penalty. The only instance in which the point might still arise is where a transfer has to be produced as evidence in Court. To be available for this purpose it must be " duly stamped " in the strict legal sense, but transfers can be presented for adjudication at any time and in general would be adjudicated as duly stamped without further question.

### Payment for Millers

The agreement reached this month between the Ministry of Food and the National Association of British and Irish Millers on the remuneration to be paid to the industry has a wider interest as illustrating the methods adopted for remunerating individual firms in industries which are being run for account of the Government as a wartime measure. The gist of the agreement, which will become binding when adopted by millers representing 90 per cent. of the industry's output, is that wartime profits will be based upon average earnings in certain pre-war years, which do not necessarily coincide—though information on this point is still not very precise—with the standard years for E.P.T. purposes. The Government will not remunerate the individual firms separately, but will make a global payment representing the standard profits of the industry as a whole to a new company, the British Millers' Mutual Pool, which has been formed for the purpose. The Pool, which acts as an intermediary between the Ministry of Food and the industry, will then redistribute the global sum among its member firms in accordance with the profits they have individually contributed to the standard fixed for the industry as a whole. No special arrangement would, of course, be needed to restrict the remuneration of the industry as a whole, since this would be limited by the normal liability to 100 per cent. E.P.T., however much output might rise above the pre-war level. And from this point of view there seems no reason why a base period should be chosen different from that under E.P.T. The essential feature of the agreement, however, is to protect individual firms whose output may have been reduced through causes beyond their control. In effect, each firm is given an equity in the wartime operations of the industry based upon its pre-war share in total profits. The Ministry of Food's announcement on the agreement, which covers the three years ending August 29, 1942, confirms that the industry's average pre-war profits will, in fact, be paid for the first two years ; remuneration for the third year cannot be fixed until the year's output of flour is known.

### Building Societies and Income Tax

Our taxation article this month takes the form of an interesting critical review by one of our regular contributors of the present arrangement in regard to the payment of income tax by building societies and its relation to the interest or dividends paid to depositors or shareholders " free of tax." Despite some possible element of inequity, however, the relief from individual liability to tax on building society interest and dividends is a facility which large numbers of investors have been content to enjoy. We feel that the arrangement must be viewed broadly from this point of view, particularly as any possible alternative might easily raise as many new problems as it would attempt to solve.

### Landlord and Tenant

Experience gained since the passing of the Landlord and Tenant (War Damage) Act, 1939, is responsible for the provisions of the amending Act of similar name passed recently. Among other things, this Act provides for a new type of procedure in respect of bombed premises, namely, the giving of a " conditional notice of retention," which will correct one anomaly arising out of the War Damage Act, 1941. Under the latter Act, a lessee who wishes to retain his lease and gives a notice of retention to this effect is responsible for making the premises fit for use. If in such a case the War Damage Commission decides upon a cost of works payment, the tenant will be covered for the full cost of repairs. If, on the other hand, a value payment is granted, then the landlord would probably receive the bulk of the compensation, if not the whole, yet the tenant would not be freed from his liability for rebuilding. The amending Act therefore provides for a conditional notice of retention, which can be converted into a notice of disclaimer if a value payment is decided upon. In addition, notices of retention or disclaimer need no longer be given in respect of short leases, that is, tenancies terminable at not more than three months' notice. Normally, rent would be payable until the end of the notice period, but the amending Act releases the tenant from this obligation in respect of damaged premises which are left unoccupied. If the premises are occupied or partly occupied, a reduced rent may be charged, the amount to be determined by the County Court where the parties cannot agree. If premises have been made fit for use, but the tenant has neither occupied them nor paid rent for three months, although the landlord has made repeated efforts to communicate with him, the landlord can then apply to the Court for the tenancy to be determined. For this purpose, the fact that the tenant remains in possession of keys or that goods belonging to him are left on the premises does not constitute occupation.

### Title Deeds Destroyed by Enemy Action

When title-deeds of unregistered land have been damaged or destroyed by enemy action, application for registration should be made to H.M. Land Registry in the usual way, accompanied by the best evidence of title available. Mere damage to, or destruc-

tion of deeds is in itself no bar to registration, and the application will be sympathetically considered with a real desire to grant it in the unhappy circumstances. Solicitors may in some cases have an examined abstract or other sufficient evidence of title. If so, absolute or good leasehold title can normally be granted. Difficulty may arise where no evidence of any kind as to title can be supplied, though, even in such cases, there may have been possession through such a period as to cure the defect. In the last resort registration with Possessory Title may be available. If solicitors bear in mind that the general standard adopted by the Registry is that of a willing purchaser prepared to overlook merely technical objections if a good holding title is shown, they can readily estimate the probability of an absolute or good leasehold title being granted. In any event, however, before the Registry can consider the case, application must be made for registration in the prescribed form accompanied by the prescribed fee, and, in addition, a statutory declaration giving a full account of the circumstances under which the deeds were damaged or destroyed, and a clear statement that no person other than the applicant has any interest in them by way of lien for any advance or otherwise. If the registration is refused, the fee paid is not returnable. Any questions relating to title deeds should, of course, be handled by solicitors, but it may be of general interest to members of the accountancy profession to know of the general procedure to be adopted when title deeds of unregistered land have been damaged or destroyed by enemy action. Application for registration should be made to: H.M. Land Registry, Marsham Court, Bournemouth.

### The Technique of Rationing

The new canned goods scheme can bring about only a minor improvement in distribution, but it is of importance as an experiment in the new rationing technique first applied in the clothing scheme. If an orderly distribution of scarce goods is to be secured, it can only be by this new method of rationing of whole groups of commodities on the basis of point equivalents. The scope for rationing for individual commodities is necessarily limited to comparatively few goods which are universally consumed. It would be quite impracticable, for example, to fix any ration for tobacco alone. On the other hand, if tobacco is included within a group of commodities, then the smoker knows that any tobacco he purchases will involve a sacrifice of some other goods within the group. Thus, distribution is adjusted to individual preferences, so that available supplies satisfy the greatest wants. If the public as a whole shows an undue preference for some particular article whose supply cannot be increased, this can be corrected by raising the point price. At the same time, by dispensing with registration, the new method should help to restore some measure of competitive enterprise between retailers in order to attract custom, though the liberation of the consumer cannot be complete so long as retailers are left to carry on unofficial rationing of other scarce goods for which there is no official scheme. Thus there is an additional reason for hoping that the new group technique will shortly be extended over a much wider field, which might well include fuel as well as all food in scarce supply.

### Exchange Regulations Amended

Minor amendments to the Defence (Finance) Regulations are effected by a new statutory Order (No. 1779) which imposes fresh restraints in some directions, but permits greater latitude in others. Under the former head, the Treasury has taken powers to block the sterling accounts of former U.K. residents now living outside the sterling area. It is authoritatively stated that no general penalisation of such persons is intended. Though the authorities have very wide discretion, the new regulation seems to be little more than an application to a particular category of the general principle underlying the creation of blocked sterling, namely, the power to authorise payments to a non-resident only if the amount is paid into a blocked account. The Order also authorises the Treasury to direct that currency exported in contravention of the Regulations be confiscated, and to determine the residential status of personal representatives of deceased persons. By way of concessions, on the other hand, foreign nationals who leave this country to take up residence outside the sterling area may be enabled to withdraw some of their property. At the same time, provision is made for the release or restoration of restricted securities in certain circumstances to nationals of enemy or enemy-occupied countries resident here. Such persons, if they were not in this country before the war and have not received permission to work, though still keeping their transmigrant status, will also be entitled to make a transfer of a sterling sum equivalent to the proceeds of any gold or specified currency which may already have been sold to the Treasury. It is understood that these concessions are largely intended to bring to an end certain kinds of black-market transactions, especially in Lisbon, where fictitious transfers of property into the names of neutrals are arranged with the object of defeating the Regulations.

### War Damage Claims

Claimants for war damage payments who submitted a V.O.W.1 form before the passing of the War Damage Act should now have received from the War Damage Commission either a further form for completion or a notification that their interests have been recorded and that no further information is required. The Commission's Regional Offices were opened six months ago, and they have now completed the work of sorting and registering the accumulation of V.O.W.1 forms and communicating with the claimants. Any person who completed a V.O.W.1 form and has not received a communication from the Commission is asked to obtain a C.1 form from the local authority and to send it when completed to the Regional Office whose address is given on the form.

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## THE RETAIL SHOP PROBLEM

Before the war, close on 9,000,000 persons in this country were occupied in distributive industry in the widest sense—20 per cent. more than in manufacture—and it was estimated that nearly one-third of these would need to be transferred to the war sector if we were to achieve a maximum war effort. It would therefore be imprudent to disregard the possible application of concentration to retail trade, a process already far advanced in several branches of industry. But for the paramount need to release man-power and to reduce consumption, the suggestion would be as unsound in principle as it would be unacceptable in practice. Inevitably concentration in retail trade bristles with difficulties, and it is hardly surprising that the Committee set up by the Board of Trade in June to consider the problems of retail trade in goods other than food has limited its recommendations to a system of licensing to prevent the opening of new shops or an extension in the activities of existing shops; that recommendation has now been implemented by an official Order.

It is probable that retailing has actually absorbed some workers released by concentration in other industries. This naturally does not mean that the labour resources of the retail trade have not been tapped, and severely tapped. At an early stage, the shift of population led to the closing down of some retail businesses in the evacuation areas. The sharp contraction in turnover brought about in some branches by limitation of supplies orders, intended primarily to secure economies in the use of raw materials, would in many cases incidentally provide a financial incentive to dispense with distributive workers. Above all, of course, the industry has been subject to the general call-up, necessitating a severe curtailment of services to customers in order to economise labour, while the first important application of compulsion to women was Mr. Bevin's call-up of women engaged in shops in the 20-25 age-group.

In all these ways, the numbers engaged in retailing have been reduced, and no doubt they will be further reduced by a more stringent application of the same methods. This is a separate question, however, from the economies to be secured from telescoping. As applied to industry, concentration means that a turnover which is already reduced is handled by a limited number of "nucleus" units, the remainder of the industry being closed down entirely. It is clear that problems arise in the application of this principle to retailing. In the first place, the services rendered by retailers (as distinct from the goods they sell) can only be consumed on the spot. Thus the closing down of shops, unlike the closing down of factories, will itself reduce the output of retail services. And real hardship would be caused if shops were closed down indiscriminately, while the gains might be offset by the loss of productivity of other workers who would have to spend more time shopping.

Secondly, the aim of industrial concentration is to release plant as much as labour. Economy in the use of retail premises is far less important. On this side, the chief economy would be the saving in fuel and light, of which civilian consumption is directly at the expense of the war effort. Although the owners of shops which are closed down might be able to earn an income from the sale of transferable quotas of goods to the remaining shops, this would not protect their goodwill.

The main difficulties that have hitherto prevented any solution are the problem of compensation and the personal association of the proprietor with the management of his own business. While the authorities have made clear their desire to hold a fair balance between the different types of retail organisation, it is inevitable that it is the 250,000 very small shops which would be most severely affected by a concentration plan, as they have already been by rationing. The social advantages in peacetime of the smallest retail shops are not to be too lightly dismissed, although their economic functions are more difficult to defend. But in wartime the one-man shops may create both man-power and supply problems which the country cannot afford to leave unsolved. Any solution must have regard to the distinct public attachment to the smaller and moderate sized shop and to the unquestionable economic service which these shops afford to the country. Moreover some of the smaller shops, not normally to be classed as one-man shops, have willy-nilly become one-man, or one-woman, shops since the war. Both intrinsically and because of the numbers involved, compensation for the smallest shops raises very complicated issues. Nevertheless, a planned solution is necessary in the national interest. Such a solution should safeguard the eventual revival of shops both large and small, and must avoid the line of least resistance offered by the prospect of absorption by large concerns. To depend upon a reduction in profits to lead to the closing down of shops would cause immense hardship, for very often the small shop is the main source of income for the families of serving men. But in addition, a process of economic attrition would be inefficient as well as cruel, since at present traders are allowed to widen their profit margins to compensate for a fall in turnover, while no cut in turnover or margins by official action would be possible in the distribution of food. In the last analysis, however, the problem is mainly a financial one, and it is most undesirable that considerations of finance should hold up the economic use of real resources. It is in helping to find practical solutions to such problems as these, as well as in their more regular functions, that accountants can be of assistance in the war effort.

# The Solicitors Act, 1941

*The Solicitors Act received the Royal Assent on November 11. In view of the importance of this Act to both the legal and the accountancy professions, we publish below one article from each point of view.*

## I

*By The Right Hon. Sir DENNIS HERBERT, K.B.E., M.P.*

The Solicitors Act, 1941, is a further step in the direction of efforts to prevent defalcations by solicitors. The difficulty of dealing with this subject is enhanced by the fact that the solicitors' profession is more "statute ridden" and less free to regulate its own affairs than any other profession. Such matters can only be dealt with in the case of solicitors by Parliamentary legislation; moreover, Parliament at the present time will undertake no legislation of this kind unless it is strictly non-controversial: therefore the form of the Act is in some instances due to the necessity of preventing any Parliamentary opposition.

The Act incorporates the main provisions which were approved or recommended by a Joint Committee of both Houses of Parliament on a Bill introduced in 1939; time did not admit of that Bill being carried into law before the end of the session. Since then wartime obstacles have had to be overcome: but patient perseverance on the part of the Council of the Law Society in negotiating with opponents or critics at last resulted, with the valuable help of Lord Wright in the House of Lords and of the Attorney-General in the House of Commons, in the Act receiving the Royal Assent on November 11, the last day of the session 1940-41.

### Solicitors' Accounts

Section 1 of the Act is directly aimed at prevention of dishonesty or defalcation by making it necessary for every solicitor, with certain exceptions, to obtain and produce every year an accountant's certificate given after examination of his accounts. The exceptions are mainly public officers and solicitors not carrying on ordinary practice. It must be remembered that under earlier Solicitors Acts passed since 1932, every practising solicitor is required to observe the Solicitors' Accounts Rules under which, in addition to the keeping of proper accounts, the solicitor has to keep a separate bank account for clients' moneys in his possession. The Law Society already has the right to require examination of a solicitor's books and accounts in any case in which such action may be thought advisable. This right has already been found very useful, and the yearly examination of the accounts of every solicitor in ordinary private practice should be very effective. No one knows better than accountants that provisions of this kind cannot *prevent* dishonesty, but that they can and should prevent continued dishonesty.

### Compulsory Examination of Accounts

This compulsory examination of accounts is not an audit: a compulsory audit would not only present great difficulties, but might well be even less efficacious than this examination. In any event an audit of a solicitor's accounts would not be as effective as many a layman believes. To be of real use it would have to be accompanied by an audit of the accounts and other details of trusts in which the solicitor is concerned. This would involve intermeddling with the affairs of other persons, which would often be resented and difficult to justify. The Council of the Law Society has to make rules, prescribing in detail the examination to be made and the form of the accountant's certificate. These Rules are now receiving active consideration. Broadly speaking, when the scheme is in operation, the examination and certificate must cover the preceding twelve months.

Owing to present conditions this section of the Act will not come into operation until after the termination of the Emergency Powers (Defence) Act, 1939.

### Other Provisions

Other sections of the Act contain provisions closely connected with this examination of accounts. Sections 5, 6 and 7 deal with the Declaration which a solicitor must make before obtaining his practising certificate. The Declaration has to cover compliance with the Solicitors' Accounts Rules (printed on the form of the Declaration so as to ensure effective notice thereof) and other information necessary to prevent evasion of the Rules.

The powers of the Law Society to refuse or postpone the grant of the practising certificate, or to make the grant thereof subject to special conditions, have been strengthened by Section 10; and Section 11 makes adjudication in bankruptcy cause automatic suspension of the practising certificate. Section 14 gives the Society a very necessary power to prevent a solicitor in certain cases from taking or continuing to take an articled clerk; while Section 18 gives the Council of the Law Society power to make Rules as to keeping accounts. These rules must be observed in every case where a solicitor is a sole trustee or where his only co-trustees are partners, clerks or servants of his.

With the exception of Section 1 as already mentioned, and Sections 2 and 3 which will be specially referred to below, the Act will come into operation on January 1, 1942.

### The New Compensation Fund

Two other important new proposals are dealt with in Sections 2 and 3. Section 2 provides for the establishment of a Compensation Fund for giving some relief in respect of losses sustained by reason of dishonesty on the part of a solicitor. The Fund is

to be provided by means of an annual levy of not over £5 payable by every practising solicitor on taking out his annual certificate; but a solicitor is exempt from this levy for his first three years of practice, and only required to pay half the amount for the next three years. The provision of this Fund by means of an annual tax or levy on practising solicitors is a burden which has been voluntarily undertaken by the profession, and affords substantial evidence of the efforts of the profession to deal with the problem of defalcation. It is also a complete justification for grants from the Fund being at the discretion of the Law Society. It is in no sense an insurance or guarantee fund, and no one will have any legal right to any grant from the Fund: the intention is that it should afford a method of giving relief in cases of hardship, distress or want resulting from dishonesty of a solicitor. No client, therefore, who incurs loss by his own carelessness can reasonably rely upon obtaining benefit from the Fund. The First Schedule to the Act sets out the details of the establishment, administration and management of the Fund. Any application will have to be made within a fixed time from discovery of the loss. This section is to come into operation on a day to be fixed by the Lord Chancellor; but there is no reason to expect that this date will be unduly delayed. It must synchronise with the practice year which commences on November 15, and will therefore probably be in about a year from this time.

### Membership of the Law Society

Section 3 deals with a matter which has been the subject of some controversy, making it compulsory for every practising solicitor to become a member of the Law Society. This was inserted in pursuance of a resolution carried by a substantial majority on a poll of members of the Society. The opposition to the proposal was sufficient to cause a serious risk of the Bill being regarded as controversial and having to be abandoned; therefore an amendment was agreed to, under which the provisions for compulsory membership are not to become effective unless and until they are approved by a two-thirds majority of all practising solicitors. It will thus at some future time (presumably not till after the war) be in the hands of the profession to decide the point.

### Disciplinary Procedure

There are provisions in various sections of the Act calculated to increase the powers or facilitate the procedure of the Disciplinary Committee. Many of these are somewhat technical, but they are the result of experience, and should help the efficient working of the disciplinary procedure. One clause, however, dealing with the work of the Disciplinary Committee, is new and important. Hitherto the Disciplinary Committee has had no power to deal with anyone but solicitors. This has been a serious limitation, for in some cases of defalcation the real culprit has been an unqualified person working in co-operation with, or possibly under the cover of, a solicitor. Clause 16 now brings clerks employed by solicitors under the jurisdiction of the Disciplinary Committee in proper cases and subject to certain protective safeguards.

The opportunity has been taken to make a number of comparatively small but useful amendments in the principal Act (the Solicitors Act, 1932), but these scarcely require special notice here.

# II

*By RICHARD A. WITTY, Incorporated Accountant.*

In the preceding article the Right Hon. Sir Dennis Herbert contributes an authoritative review of the Solicitors Act, 1941, from the point of view of practising solicitors. In this article it is only necessary to deal with Section 1, which contains the provisions of the Act directly concerning accountants. That section is to come into operation on such date as the Lord Chancellor may by Order appoint, but not until after the termination of the period during which the Emergency Powers (Defence) Act is in force. It provides that every solicitor shall once in each practising year deliver to the Registrar a certificate signed by an accountant in relation to his examination of the books and accounts and relevant documents of the solicitor.

The Council of the Law Society are to make Rules which are to prescribe:

(a) what qualification shall be held by an accountant by whom an accountant's certificate may be given;

(b) the nature and extent of the examination to be made by an accountant of the books and accounts of a solicitor or his firm and of any other relevant documents with a view to the signing of a certificate to be delivered by such solicitor under this section;

(c) the form of the accountant's certificate which shall state—

(i) that in compliance with this section and the rules made thereunder the accountant has examined the books accounts and documents of the solicitor or his firm for the accounting period specified in the certificate, and

(ii) whether or not from his examination of the books accounts and documents produced to him and from the information and explanations given to him the accountant is satisfied, and, if he is not satisfied, the matters in respect of which he is not satisfied, that during the accounting period the solicitor or his firm has complied with the provisions of the Solicitors' Accounts Rules; and

(d) the evidence, if any, which shall satisfy the Council that the delivery of an accountant's certificate is unnecessary and the cases in which such evidence is or is not required.

Certain discretionary matters are also to be settled by these Accountant's Certificate Rules, particularly in relation to accounting periods. The section further provides that if any solicitor fails to comply with the

provisions of the section or the Accountant's Certificate Rules, a complaint in respect of such failure may be made by or on behalf of the Law Society to the Disciplinary Committee of that body.

The Accountant's Certificate Rules will be complementary to the original Solicitors' Accounts Rules made under the Solicitors Act, 1933, and subsequently amended in certain respects. These Rules require that clients' moneys shall be kept quite apart from the solicitor's own moneys, but experience has proved that where a solicitor has failed to obey these rules his transgression in the majority of cases has only been discovered when it was too late to avoid the catastrophe. The new Act and the new Rules are expected to apply the brake before an accident occurs. Many solicitors already have their books regularly audited, and accountants have always been sensitive to the difficulty attaching to the segregation of clients' moneys from office moneys merely from an examination of the books. Clients' moneys may take on the status of office moneys—or sometimes vice versa—as the result of a document or letter, and there has at times been a natural hesitancy on the part of the solicitor to disclose the documents relating to the personal affairs of his clients. This difficulty remained under the new Bill as originally drafted, which referred only to the examination to be made by an accountant of the books and accounts of a solicitor or his firm. The position of the accountant has been materially strengthened by an amendment which was passed by the House of Commons which adds the words "and of any other relevant documents" in addition to the books and accounts. As a natural corollary it is further provided that the new Rules to be made shall prescribe that the accountant has examined the books, accounts and documents of the solicitor or his firm. The task of the Council of the Law Society in drafting the Accountant's Certificate Rules will not be easy, particularly in regard to the nature and extent of the examination to be made by the accountant before he gives his certificate. The distinction between an "examination" and an "audit" will need to be phrased in language free of possible ambiguity. These Rules will be of vital importance, but it will be realised that in any event the responsibility upon accountants under the Rules will be heavy. Every accountant will need to be acquainted with the Solicitors Acts, 1932 to 1941, and with the Solicitors' Accounts Rules as well as the new Accountant's Certificate Rules. The Council of the Law Society can rely upon the assistance of the accountancy profession, who will co-operate wholeheartedly with the Law Society in their endeavour to eradicate the possibility of fraud by solicitors in relation to clients' moneys.

# Salvage Appeal to Accountants

Lord Beaverbrook has recently stressed the great need for wastepaper and cardboard to meet the urgent demands for cartons and other paper products, both for the Forces and for civilian use. The Council of the Society feels confident that accountants will wish to respond to this appeal as fully as possible. It accordingly invites all members to co-operate in the following scheme, which has been drawn up in consultation with the Controller of Salvage and other accountant bodies.

1. **Comb-out**. Each office should look over all books and papers not in current use and put out for salvage everything that need not be retained. It is obviously a matter for each accountant to decide what should be so put out, but it is suggested that generally this might include old books and papers, such as :

> Petty cash books, time records, sales and purchase books, drafts, analyses, working papers, invoices, sale and delivery notes, paid cheques, counterfoils, etc. Clean white paper and newspaper should as far as possible be kept separate from coloured packing papers and cardboard and odds and ends, so as to facilitate the sorting by the merchants.

Regard must, of course, be had for any books and papers which may be the property of clients, in which case permission should be sought and obtained for their disposal.

2. **Disposal**. The material thus made available should be disposed of either by sale to a waste-paper merchant, or by handing over for collection by the Local Authority ; by either channel it will pass to the mills for war production.

3. **Secrecy**. Most merchants and local authorities are prepared to guarantee that the secrecy of books and papers of a confidential nature will be preserved ; such material should be packed closely in sealed parcels, or in sacks provided for the purpose by the merchant or local authority on request. If necessary the names of merchants in any particular locality can be obtained from the Secretary of the Society.

4. **Proceeds**. The proceeds of material collected by local authorities are applied by them in relief of local rates. In the case of material sold to merchants, the Council very much hopes that the members will see their way to contribute the proceeds to the Incorporated Accountants' Benevolent Fund, or to the Red Cross Fund, or to some other war charity. As it is desired to ascertain the total sum under this heading, members of the Society are asked to notify the Secretary of the amount so contributed.

While fully appreciating the difficulties arising from depleted staffs, the Council feels that members of the Society will derive, from discharging this duty, the satisfaction of having contributed another service to the national effort and incidentally securing additional space in their offices. The Council therefore appeals to members to assist this scheme and to do their utmost to complete the weeding out before December 31.

# Recent Changes in Stock Exchange Procedure*

By F. E. ARMSTRONG, Member of the Stock Exchange, London

One of the real services rendered to the nation by the Stock Exchange is the prompt and safe transfer of title from seller to buyer. The speed with which such title can ordinarily be transferred, notwithstanding the amount of money involved, has always been a matter of pride to the City and to the Stock Exchange in particular. It is fitting, therefore, that any interference with this smooth transfer, evolved and perfected by years of experience, should engage the attention of the accountancy, banking and other kindred professions.

Of all developments known to the Stock Exchange, none is so destructive to confidence and demoralising to market price levels as the threat, or outbreak, of war. Its effect on the delicate machinery designed to carry through the business transactions of the Stock Exchange is immediately restrictive. It was fortunate that the long period of anxiety which preceded the war in September, 1939, had prepared the City for the initial shock, but the immediate sequel to the actual outbreak of hostilities was the temporary closing of the Stock Exchange, the substitution of cash transactions in place of dealings for the account (referred to later), and the introduction of minimum prices below which members were not allowed to deal. Elaborate rules for the conduct of business, prepared beforehand by the Stock Exchange Committee, were immediately put into force; and these were supplemented by a number of Regulations issued by the Treasury and other Government departments. The most important of these regulations were the restrictions imposed under the Trading with the Enemy Act, 1939, and the Defence (Finance) Regulations, 1939; and these were designed to prevent trading on behalf of enemy subjects. As the Forms "B" and "D" ("B" relating to bearer, and "D" used in all cases for deed or registered stock) are now a familiar and necessary accompaniment when title is in process of transfer, they will be referred to again, but their use constitutes a departure from the custom and procedure hitherto in force.

## Bearer Securities

As is well known, securities which convey title and ordinarily pass between buyer and seller are of three kinds, Bearer, Registered, and Inscribed. It will quickly be seen that in wartime the form of bearer securities constitutes the most vulnerable and precarious holding of the three—so much so that the Bank of England, in an instruction to the Stock Exchange, advised that wherever possible bearer securities should be converted into registered form. While this was largely, almost wholly, possible where British Government securities were involved, few of the large English industrial companies such as the Shell Transport and British American Tobacco, whose shares could be purchased in either bearer or registered form, enjoyed such facilities. American and foreign securities generally are referred to later.

While common prudence suggested the wisdom of thus converting bearer securities into registered, additional pressure was exercised by the Committee of the London Clearing Bankers, who in a letter addressed to the Stock Exchange stated that "when bearer securities are lodged with banks by brokers and jobbers the banks cannot undertake the responsibility of recording (either in original or in duplicate) the numbers and other particulars of these securities."

Inducement was also held out by the Crown Agents for the Colonies, who decided to forego during the present emergency the usual fee for reinscription of bearer certificates of Colonial Government stocks domiciled with them. Similar action was taken by the Bank of England in respect of loans of the London County Council, including Metropolitan stocks, the Metropolitan Water Board, the Governments of Newfoundland, New Zealand, Queensland and Transvaal, and great corporations such as London, Liverpool, Birmingham and Manchester. Thus was proffered to investors a very helpful method of protection against the inevitable risks which accompany the holding of bearer securities in time of war.

The very large class of American, Canadian and foreign Government securities, almost all of which are in bearer form, was untouched by the recommendations just referred to. All of these securities, however, had previously been the subject of special attention. Returns had been called for under a Treasury Order, and a restriction had been imposed on all dealings, except by special permission of the Bank of England; and the prosecutions and heavy fines which have followed in cases of owners who have been remiss in making these returns are an indication of the importance attached by the authorities to these holdings in time of war. Although the restrictions on dealing have in some cases now been somewhat relaxed, all bearer securities on a change of ownership must be accompanied by the appropriate form "B," a duplicate of which is handed to the Bank of England or the Stock Exchange Share and Loan Department, with its solemn undertaking signed by both parties, and supported by the stamp and signature of a bank or stockbroker, that no infringement of the Trading with the Enemy Act, 1939, is involved by the change of ownership.

## Registered Securities

The method adopted for the transfer of security title in registered form has suffered no fundamental change as a result of the war. Rather has the adoption of this form of security grown in favour as the result of the risks inseparable from a bearer security. Cases where the process of transfer has been slowed up have resulted from the inaccessibility of company offices, most of whom have evacuated to temporary offices in the country, when their services are required for purposes of certification and

*This article is by the author of "The Book of the Stock Exchange" (Sir Isaac Pitman & Sons, Ltd., 3rd edition 1939), which gives a fuller explanation of Stock Exchange procedure.

registration of transfer deeds. This delay has been partially offset by the extension of the facilities available for certification by the Share and Loan Department of the Stock Exchange, London, and by the arrangements which have been in force for some time whereby the certification of authorised officials of all Stock Exchanges affiliated to the Council of Associated Stock Exchanges was recognised and accepted as valid. As all of the well-known provincial Stock Exchanges are affiliated to this body, this arrangement has proved extremely useful.

All deeds relating to the transfer of title in registered form must, to be in order, be accompanied by the appropriate Form " D," the counterpart of Form " B," already referred to as necessary when bearer securities are being transferred. Form " D " is not so elaborate as Form " B," which is explained by the fact that bearer securities have always circulated freely on the Continent. Form " D " does, however, require the solemn attestation regarding the Trading with the Enemy Act, 1939, which has similarly to be supported by banker or broker.

An interesting point regarding Form " D " is that the information called for precludes for the first time the concealment of identity of the real holders by the use of a nominee. The declaration called for contains these words : " If the transferee named above will not be the sole beneficial owner the following declaration must also be completed : The full names of the persons having an interest in the security are : . . . ." Thus comes to the surface for the first time the real identity of holders or interested parties, so long withheld from view by the employment of a nominee's name. As a similar declaration has to be signed on Form " D " by the transferor also, it will be seen that this marks a definite change in Stock Exchange procedure.

### Inscribed Stocks

There remains the third method whereby title can be held and transferred, namely, inscribed stock. This form of holding has always been favoured by large holders of the various Government loans for the reasons (1) that any amount could be transferred into a purchaser's name without signature or attendance at the bank where the records of the loan were kept, (2) that the stock receipt issued by the bank to holders was of no negotiable value, and (3) a seller or his attorney could attend at the bank and by the simple method of signing the bank's register, transfer his holding or part of his holding to a purchaser with a minimum of delay. It is necessary to state that certain formalities which were of importance had to be observed, such as " identification " by a banker, broker or other accredited person, and the issue by Stock Exchange members of " Ticket and Receipt " ; but proof of the popularity of this form of title was the fact that millions of pounds of Government security title changed hands daily by means of this valuable and efficient method.

One of the earliest changes in procedure made necessary by the war effected this method of transfer. Personal attendance at the bank being impracticable for the reason that staffs and records were removed to the country, the following regulation was issued : " Transfers of all inscribed stocks will be effected by the common form of transfer, but a certificate of title will only be issued if a Deed Register is already in existence. Where this is not the case the stock (though transferable by the common form) will remain inscribed in the name of the buyer." Thus, the common deed of transfer has for the time being replaced inscription and personal attendance at the bank. The familiar method of using a special power of attorney where personal attendance was impracticable, giving a stockbroker or banker the power to sign on the stockholder's behalf, has also become unnecessary as the seller's signature, previously required on the power of attorney, can now be obtained to fulfil the bank's requirements on an ordinary deed of transfer.

As for other registered stocks transferable by deed, inscribed stocks transferred now must be accompanied by Form " D."

### Dealings for Cash

By far the most important change in Stock Exchange procedure was the abolition of dealings for the account, and the substitution of dealings for cash. Temporary Regulations (3) issued by the Stock Exchange Committee on the day following the outbreak of war read as follows :—

(I) All bargains must be for cash and may not be continued from day to day or otherwise.

(II) No new " Time bargains " or options will be allowed except in connection with existing contracts and existing continuations.

In general terms, inscribed stocks, which are dealt in for cash, were unaffected by this Regulation. Its effect on bearer and registered stocks was the virtual elimination of speculative transactions. All purchases must now be paid for and sales must be supported by evidence of title. While hardship was imposed on firms who specialised in options and continuation or contango business, the wisdom of such legislation in wartime is seen at once. Additional work was also put on depleted staffs, for whereas four days in each account (usually of 14 days' duration) were set aside for settlement of an account's transactions in bulk, under the system of cash dealings each business day in a Stock Exchange office becomes a miniature Account Day.

By these methods has the Stock Exchange, in conjunction with the authorities, endeavoured to meet the problems introduced by the war. Delay in completion of transactions has sometimes been unavoidable, but cash dealings have helped to offset difficulties to which the whole business community has been exposed. When to these difficulties is added the destruction of property, loss of records and documents, removal of registered offices, depletion of experienced staffs, and additional work through the introduction of new regulations, it may reasonably be considered that the City has conducted its vast business with commendable courage and dispatch, and worthily maintained its high reputation as the foremost bourse and financial centre of the world.

## TAXATION

# The Revenue, the Building Societies, and the Investor

[CONTRIBUTED]

The fact that dividends and interest from building societies are "free of tax" has played a principal part in the growth of the movement. Contracts, or "arrangements" as they have been termed, have been made between the Revenue and the societies, but most of the investors have been unaware of their terms, little being said in the societies' literature and press advertisements. The need for some arrangement arose because the societies were originally the expression of the desire of the working-classes to own their own homes; and for many years a large proportion of the members, whether as borrowing-members or as investing-members, were persons not liable to income tax who would not, normally, have been called upon to make returns. Others, whilst not totally exempt, had very small liability.

Under Schedule A the interest payable to building societies would normally be charged upon the house owner. He would deduct tax from his interest payments —assuming such interest to be annual interest—and, in turn, the societies would deduct tax from dividends and interest. With the investors either wholly or partially exempt, there would then be repayment claims and the Revenue would have been collecting from borrowers only to repay to investors. Over 40 years ago, therefore, two alternative arrangements were made, and the one known as "Arrangement B" is the parent of the existing scheme. Under "Arrangement B," the interest payable by borrowers was exempted under Schedule A and they paid it in full to their society. The latter was directly assessed upon one-half of the dividends and interest paid to members, a proportion estimated to yield roughly the net amount due to the Revenue. Finally, the society paid all dividends and interest "free of tax."

### The 1935 Arrangement

The existing arrangement, based upon that of 1935, differs in principle in two respects from the original "Arrangement B." First, instead of a fraction of the total distribution being taxed at the standard rate, this rate is now confined to payments on investments exceeding £5,000, and on holdings of companies, etc. The remainder is assessed at the "composite rate," ascertained by sampling upon a large scale. The second important difference is the "grossing" of the distribution. Prior to 1935, tax was payable only upon one-half of the actual distribution. Thereafter, it was to be paid upon an aggregate consisting of the actual distribution plus the tax paid for the year in which the society's year ended. In other words, the fund and not the distribution was to be the basis.

The tax position, so created, clearly bears but little resemblance to income tax under the Acts. In substance, graduation is replaced by a flat rate, with the consequence that the poorer investor gets less and the richer one more than he should. All receive their dividends or interest "free of tax"; but the vast majority do not appreciate that in this connection the term has been given a special meaning.

By Clause 9 of the 1935 arrangement, no repayment of tax was to be made on income received by investor members and each society "agrees not to issue any certificate of payment of tax in respect of such income." This clause is a unilateral declaration by the Revenue of its intention not to give the words "free of tax" their full normal significance and an undertaking by the society which goes beyond one relating to certificates of deduction of tax. Now, apart from Section 33 of the Finance Act, 1924, there is no obligation upon the payor of dividends or interest to give any certificate as to the tax deducted or to the effect that payment is from a taxed source. But it is normal for this to be done; and, if not, a claimant will be in serious difficulties.

In the past, when an investor has sought relief upon the footing that "free of tax" has the normal meaning attaching where the condition arises out of contract or out of a dividend declaration, he has been informed by the Revenue that he has not borne tax. Thus, to give but one instance, he has not been allowed to set off such income against his liability in respect of tax deducted from annual payments. And, owing to the amounts involved being usually small and the persons concerned of limited means, what has often been regarded as injustice has been acquiesced in. This position obtains no longer. Until quite recently, the case of *Trustees of William H. Pott (Deceased) and The Commissioners of Inland Revenue* has been awaiting hearing, although not set down. It was, as will be seen, a case which directly affects only one class of building society investors, but, in its implications, affects a much larger number. This being so, it will be instructive to set out some of the facts and arguments.

### The Arrangement Challenged

Under the will of William H. Pott, who died in 1903, his trustees had to pay certain annuities, and, during the years 1936-7 and 1937-8, they paid one of £400 less tax. The taxed income of the estate being inadequate, there was a liability to assessment under Rule 21. The Trustees claimed as a set-off dividends from two building societies, both of which had adopted the 1935 arrangement. Upon appeal, the Special Commissioners adhered to their previous decisions upon the point in favour of the Revenue, although there is reason to think that the case for allowance was put forward upon new grounds. A case having been demanded, the following were the arguments of the Trustees—slightly condensed —as set out therein :—

(1) That they were not a party to the arrangement, had no knowledge of its terms, and were not bound by it in any way. That they had acquired their shares upon the basis of public advertisements which offered shares bearing dividends at a rate per cent. free of tax and which stated that in the case of persons liable at the standard rate this was equal to a higher rate per cent. reduced by such rate of tax; that the Trustees were liable at the standard rate;

(2) that the dividends were payments within Rule 20 of General Rules, Income Tax Act, 1918, and, being tax-free, fell to be regarded as gross amounts less the tax thereon (*C.I.R.* v. *Cull*, 22 T.C. 603). That this tax, in view of the conditions of acquisition, was at the standard rate; alternatively, it was at the composite rate;

(3) that the composite rate should be regarded as consisting of different rates and that part of the dividend fund should be regarded as having been taxed at the standard rate and the remainder at rates corresponding with the respective tax positions of the recipients of the dividends; that the dividends received by the Trustees fell to be regarded as paid out of the part taxed at the standard rate;

(4) that in so far as the result of the arrangement was a tax different in its provisions from the income tax as imposed by Parliament it was contrary to the Bill of Rights and illegal;

(5) that the Revenue had admittedly taxed the fund out of which the dividends were paid; that Clause 9 of the arrangement having precluded the Building Societies from issuing certificates, the Revenue was not entitled to rely upon their absence, and that the wording of the warrants issued upon the occasion of dividend payments was sufficient; that Section 33 of Finance Act, 1924, only applied to companies within the Companies Acts.

The Special Commissioners had "held that the validity of the arrangement was not an issue; we found that the arrangement had been acted on by the Building Societies concerned and that income tax had not in fact been charged upon or deducted from the dividends in the hands of the Trustees. We held that the assessments had been correctly computed and we confirmed them." This meant that the Trustees had not only lost but, provided that there was evidence to justify the finding of fact, they had been stated out of Court. In the recent case of *Bomford* v. *Osborne*, in the House of Lords, the practice of Commissioners coming to conclusions on questions of law and then describing them as findings of fact was strongly condemned; and it is an evil to which the writer has drawn attention in this journal from time to time. Nevertheless, despite the nature of the findings, upon September 16, 1941, the Solicitor of Inland Revenue intimated that the Board had decided not to defend the case.

In conclusion, brief reference must be made to Section 20 of the Finance Act, 1940, relating to dividends paid without deduction of tax. The section applies to dividends within Rule 20 and as such to building society dividends; but the "composite rate" would seem to present an interesting problem.

W. B. C.

# Taxation Notes

### E.P.T.—Deductions Not Reasonably and Properly Attributable to the Accounting Period (Section 33 (2), Finance Act, 1940)

A reader asks what factors are taken into account in determining whether or not a deduction represents a sum reasonably and properly chargeable to any accounting period, and to determine to which period a deduction is correctly attributable. He cites the instance of substantial repairs at a factory, where the Inspector of Taxes suggests that the cost should be spread over the period from the date the factory was built—a period of 40-50 years. The reader argues that an expense is, in normal circumstances, attributable to the year in which the expenditure occurs, and if the sub-section is effective, it ought to spread expenditure forward, as the benefit of the repairs will be gained in the future—an ingenious but, we think, illogical argument. The sub-section owes its existence to the determination of the legislature to ensure that excess profits are not diverted in the obvious way of "sprucing up" premises, etc. The liability for doing repairs has been accruing and the expenditure is therefore quite properly spread back, though rarely over so long a period as that mentioned. In an instance in our experience the Revenue did not insist on altering the standard profits in such circumstances, although allowing only a fraction of the cost of a renewal in the accounting period on which the chargeable accounting period was based.

We agree with our reader that the position should be provided for where repairs, etc., will be done after E.P.T. ends; these should be spread back, too. Probably some provision will be made; the Revenue have already given a concession whereby the collection of tax on sums reasonably reserved for repairs will be deferred.

As to the factors to which he refers, we hardly see how any hard and fast rules can be laid down. It is a question of fact whether a given expense relates to a particular period, or whether it represents an outgoing in one period for something done for future benefit (which is possibly capital, anyway) or for something not done in the past. Our reader concludes by saying that the Revenue method mentioned means that it is impossible ever to arrive at any definite liability. We agree, but this is only one of the many points which may give rise to reopening of assessments. Winding-up the E.P.T. promises to be as bad as were the death-throes of the old E.P.D.

### Osler v. Hall and Ex parte Gibbs

The effect of the decision in *ex parte Gibbs* (1940, T.R. 419) on *Osler* v. *Hall* (1932, 17 T.C. 68) is of no little importance to-day, and appears to be as shown in the following illustration:—

A and B carried on business in partnership until January 31, 1941, on which date they admitted C as an additional partner. The assessment for 1940-41 was £14,000, divided equally. No claim was made to have the assessments made as if there had been a discontinuance of the business on the change in the partnership. Under the rule in *ex parte Gibbs*, the Crown cannot split the assessment, under Rule 9 of Cases I and II, Schedule D, between the two firms, as there has been no succession. The profits for the year to September 30, 1940, were £20,000, and on June 30, 1941, a further partner, D, was admitted. On this change the partners applied for assessment as if the business had been discontinued and a new business commenced. The profits for the year to September 30, 1941, were £15,000.

The assessment on A, B and C for their ultimate period, April 5-June 30, 1941, will be $\frac{2\frac{3}{4}}{12} \times £15{,}000 =$ £3,542, but as A, B and C were not assessed at all in 1940-41 no adjustment can be made of the assessment for the penultimate year, 1940-41. A, B, C and D will be assessed on the actual profits for the period from June 30, 1941, to March 31, 1942.

In view of Section 11, Finance (No. 2) Act, 1938, as extended to 1940-41 and 1941-42, the *Osler v. Hall* anomaly loses much of its importance, though it is still the cause of much legal avoidance of tax. Apparently the Revenue have found difficulty in framing appropriate legislation to combat it, or we should have expected amending legislation already.

### E.P.T.—Inter-connected Companies

It is doubtful if the provisions of the Acts as to inter-connected companies can be interpreted otherwise than

on broad lines. Compromises, however, may operate inequitably, unless a uniform method of arriving at settlements is generally adopted. Neither the taxpayer nor the Crown is anxious to have to go to the Court to interpret the meaning of the legislation, and it has been suggested that a Committee should be appointed to examine the working of the Acts and suggest interpretations to be given statutory effect forthwith. That Committee should consist solely of men with experience of the application of the Acts, i.e., selected inspectors of taxes, barristers and accountants. The barristers and accountants should not be chosen for their general standing in the profession, but solely on their experience of E.P.T.

If steps are not taken at an early date, we seem to be faced with lengthy amendments in every Finance Act, and grave delays in the collection of the tax owing to the lengthy negotiations required. There are many "open" cases which are in danger of being settled temporarily, with a right to re-open, or of being settled on most unsatisfactory lines.

A tax at one hundred per cent. ought to be certain, but it would be a brave man who would suggest that much of the E.P.T. legislation is even comparatively certain.

The interpretation of some of the legislation, even by experts, seems to be coloured by what is thought, or was said in Parliament in explaining the provisions, to be the intention. As an example, we have to-day been examining two books on a particular aspect. One makes this statement :—

> "It should be noted here that the loss of any subsidiary does not terminate the relevant period—it is only the loss of a new subsidiary . . . which has that effect."

The other :—

> "A 'relevant period' is a period after March, 1939, during which the composition of 'a group of companies' remains unchanged, or is changed only by the loss or addition of a 'new subsidiary.'"

In the sentence preceding that quoted, the first writer made substantially the same statement as the second, but the emphasis in the quotation shows the difficulty that even he has in interpreting the preliminary point. There is no doubt that his emphasis is wrong—the second quotation is almost in the words of the Act. The loss of any subsidiary except a new subsidiary terminates the relevant period.

### Expenses of Renewing Mortgage Debentures

It does not appear to be generally known that, by a concession made some forty-five years ago, reasonable expenses incurred in the renewal of existing debentures will be allowed as deductions in computing profits for income tax purposes. Like all concessions, this is subject to the discretion of the General (or Special) Commissioners, but the concession does not appear to have been withdrawn.

### Age Allowance—Marginal Relief

As was stated a few months ago in these notes, the "turning point" at which the margin ceases to be advantageous is now £600 where the income is all unearned. If some is earned, the turning point can be found by deducting from £600 twice the earned income allowance. Thus, if £150 is earned, the turning point is £600—2×£15=£570.

### Valuation of Trading Stock on Discontinuance of Trades

In these days of rising prices, it is opportune to remind readers of Sec. 26, Finance Act, 1938. Wherever a trade is discontinued, the closing stock cannot be valued on the familiar "cost or market value, whichever is lower," basis except where the discontinuance is on the death of a sole trader. If the stock is sold or transferred for valuable consideration to a person who carries on or intends to carry on a trade in the United Kingdom, and the cost to him of the stock will be deducted in computing his trading profit, the amount realised by the vendor, or the value of the consideration given for its transfer, must be included in the vendor's accounts as the closing stock, i.e., the amount which will be debited in the purchaser's trading account must be credited in the vendor's trading account. In any other case the vendor must include as his closing stock the amount it would have realised if sold in the open market at the discontinuance of the trade; where the discontinuance is the result of enemy action, the amount received from the Board of Trade under the Commodity Insurance Scheme will be the amount to be included as market value for the stock in respect of which the payment is made. It will be seen that on a sale of stock to a purchaser who acquires it, not for resale, but as a fixed asset, the price paid is not conclusive of the value to be included.

### Directors' Remuneration

Many director-controlled companies include on the board of directors a solicitor, accountant or other professional man mainly in an advisory capacity. It is understood that in such cases the Revenue are prepared to allow the remuneration paid as a deduction in computing profits, notwithstanding that under a strict interpretation of the term "directors' remuneration" the payment would not be allowable.

### Obsolescence

In the issue for February, 1941, we commented upon the practice of the Crown in connection with capital profits on the sale of plant, etc. The recent case of *Charente Steamship Co.* v. *Wilmot* (1941, T.R. 149) provides an interesting development. The company owned three steamships and sold them, buying others in their place. In the case of one ship the wear and tear allowances made in past years, together with the sale price, did not amount to the original cost of the ship, but in the case of each of the other two, the allowances plus the sale price exceeded the original cost. The Special Commissioners decided in favour of the Crown, that the surpluses on the two ships were to be set against the deficiency on the other for the purposes of the obsolescence claim. MacNaghten, J., allowed the company's appeal, holding that the surpluses could not be set off. Each item of plant can therefore, it appears, be regarded separately. After remarking on the fact that income tax is not chargeable on the appreciation of a capital asset, e.g. the surpluses in point, he said: "It would, I think, be somewhat whimsical to construe Rule 7, which on the face of it purports to give relief from taxation, so that in effect it would impose taxation on a subject-matter which but for the Rule would be exempt from taxation. But the short answer to the contention put forward by the Crown is that . . . the Rule deals only with the case where there is a 'deficiency' on the replacement. . . . The Rule does not purport to deal with the case of a replacement of a capital asset which has resulted in a 'surplus.'"

A further point had been argued before the Special Commissioners and decided in favour of the company, viz. that one ship which was not actually sold till the year 1938 had been "replaced" in 1935. This was not before the Court, however, and the case was argued on the basis of her having become obsolete in 1935.

This case ought to dispose of all the points mentioned in our earlier note.

# Recent Tax Cases

By W. B. COWCHER, O.B.E., B.Litt., Barrister-at-Law.

*Schedule D—Purchase of business from receiver—Sale by purchaser to new company for cash and shares—Valuation of stock taken over from receiver and transferred to new company.*

In *Osborne* v. *Steel Barrel Co., Ltd.* (K.B.D., July 25, 1941, T.R. 191), the somewhat complicated facts may be summed up by stating that a Mr. Hood Barrs acquired from the receiver of a moribund company for the sum of £10,500 its undertaking and certain of its assets, and then sold them to a new private " one-man " company formed for the purpose—the " one-man " being himself—for the same amount in cash plus the whole of the new company's capital, £30,000 in £1 shares, except for three shares. For stamp duty purposes the division of the £10,500 was £500 for goodwill, £5,000 for land and buildings, £2,449 for plant and machinery, £58 for furniture, and £2,493 for stock-in-trade. This last amount was claimed by the Crown to be the correct debit for commencing stock in the first trading accounts of the new company. The latter, however, debited £21,868, market value being claimed, the actual cost being unascertainable. The Special Commissioners, after hearing conflicting evidence, fixed the commencing value at £10,000 ; and both parties appealed.

Macnaghten, J., decided in principle in favour of the Crown. He said it was common ground that the commencing stock figure should be the actual cost if ascertainable. (This clearly means the cost to the new company). Assuming it to be the case that the property of the old company was bought for £10,500, and then sold to the new company for this sum, plus 29,997 shares, this fact had no bearing upon the cost to the new company of the stock-in-trade. Even if the total consideration had been expressed as £40,497 to be satisfied by payment of £10,500 in cash and by the allotment of 29,997 fully-paid shares, he thought that the cost to the new company of the property comprised in the contract would have been £10,500, the allotment of the shares costing the company nothing. As regards the argument that, because it was impossible to ascertain the actual cost of the stock, market value must be taken even if greater than total cost of the property acquired, it amounted to saying that if a bundle of things, all of some value, were bought for a lump sum, the cost of one of them might be greater than the cost of the whole bundle. He did not think that division of the £10,500 was impossible. What the company had done for stamp duties the Special Commissioners could also do, and it was for the company to show that its previous apportionment was erroneous. Failing this, the stock must be valued at £2,493.

The case represented an attempt by one legal person to make a large capital profit out of himself as another legal person ; but its failure would seem to have depended upon the special facts, and the judicial reasoning seems open to question. Thus it may be asked what would have been the result if the new company had been an independent and substantial company with a capital of, say, £100,000, and the shares issued had represented the real excess value of Mr. Hood Barr's bargain. Granted an excess value but of smaller amount, the position would seem to be in some respects the converse of *Lowry* v. *Consolidated African Selection Trust, Ltd.* (1940, A.C. 648 ; 23 T.C. 259). If shares issued to employees at par are worth eight times as much and the company is precluded from debiting the forgone *premium* as a trade expense, what is the position where a valuation of the shares would show a large *discount* ? As a matter of general legal principle, the limiting of the apportionment to a division of the cash consideration would seem to be of doubtful validity.

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*Sur-tax—Sums paid to residuary legatees—Whether income—Whether residue ascertained.*

In *C.I.R.* v. *Pilkington* (K.B.D., July 25, 1941, T.R. 187) the issue was whether an estate had been administered prior to May 18, 1938. It arose out of the will of the late A. R. Pilkington, who died in 1921, and who thereby provided for his wife an annuity of £3,000 per annum free of all death duties, income tax, super-tax, or other recurring taxes current or future—conditions which, in view of subsequent fiscal charges, obviously presented a difficult problem for the executors. The will directed that a sufficient part of the estate should be set aside to provide for the annuity ; but, at the date of death, the income of the estate was insufficient for this purpose, and no appropriation had, in fact, been made. It was, however, provided that resort could be had to capital if the income of the appropriated fund was insufficient. A large part of the estate consisted of the Rainford estate, where deceased lived. He desired that this should remain in the family, and gave a series of successive options, at a price to be fixed by the trustees, to his sons and brothers. Ultimately, all the persons concerned refused to exercise their option rights ; but it was not until May 18, 1938, that the last option ceased.

The estate, however, had greatly increased in value in the intervening years, and payments had been made to the residuary legatees. The respondents had argued before the Special Commissioners that the estate had not been ascertained " until " May 18, 1938, when the last option had lapsed, and for the Crown it was contended " that this fact was irrelevant to the issue and that the decision represented a mistake in law." The Commissioners' decision, however, was that the estate had not been administered " prior to " this date ; and Macnaghten, J., upheld them. Following *Corbett* v. *C.I.R.* (1938, 1 K.B. 567, 21 T.C. 419), he said that in the circumstances the executors were entitled to consider that they were still administering the estate. And, as the decision was one of fact, it could not be disturbed unless there was no evidence to support it.

The law has, of course, been altered by the Administration of Estates provisions in the Finance Act, 1938.

## BOOK REVIEW

**Practical Cost Accounts.** By Andrew Miller. Second Edition. (Gee & Co. (Publishers), Ltd., London. Price 10s. net.)

Mr. Miller writes from the viewpoint of a director with costing experience and enthusiasms. The merits of his book (which are considerable) lie therefore on the practical side ; its demerits are a certain incoherence and a limitation of scope, illustrations being drawn mainly from marine boiler making. The graphs and forms at the end of the book are well arranged and—although not always referred to in the text—will usually explain themselves to the industrial executives to whom Mr. Miller's book is addressed. Its main value to accountancy students will be to supplement the superficial diet of epitomised theory on which they are customarily reared.

FINANCE

# The Month in the City

### Stock Exchange and Montreal Scheme

The Montreal debt rearrangement scheme discussed last month has led to an interesting precedent in the formation of a special sub-committee of the London Stock Exchange, including among its members the chairman and deputy chairman of the Committee for General Purposes, to safeguard the interests of United Kingdom holders of Montreal sterling stocks. The object of the sub-committee is not to undertake negotiations directly, but to mobilise the interested parties with a view to the formation of a strong negotiating body. Although the Stock Exchange Committee has on occasion taken steps to make clear that proposed company schemes of reconstruction would invoke official action, this appears to be the first occasion on which the Committee has set up a formal body to protect investors. The action taken on this occasion has brought forward the suggestion that a sub-committee of the Committee for General Purposes should be set up as a permanent body to represent the Stock Exchange whenever any default on an overseas issue is threatened. The suggestion has not found universal approval. It is pointed out, for example, that functions of this kind are already exercised in relation to foreign issues (as distinct from Empire stocks) by the Council of Foreign Bondholders, on which the Stock Exchange is represented, and it is argued that to extend the work of the Council to cover sterling securities might be preferable to duplicating its work by an entirely separate body. In this argument there may be some force, since the Council of Foreign Bondholders is, after all, an official body, whereas the only sanction behind any negotiations conducted by the Stock Exchange itself would be a threat to suspend quotation of a security—which might cause more inconvenience to individual holders than to the defaulting borrower. Fortunately, the question of defaults within the Empire should arise only in isolated and infrequent cases. Opposition to the Montreal proposals has probably been aroused not so much by the actual terms of the scheme—though it is still felt that the leading city of the most prosperous Dominion should not need so long a period to put its financial house in order—as by the failure to keep the bondholders reasonably informed of what was intended. In securing regular and up-to-date information on all borrowers whose securities are quoted, the Stock Exchange might perform a very useful function. It is suggested, too, that any borrower in the London market should in future be required to furnish periodical statements of his financial condition, just as a company is bound to publish regular accounts.

### South American Boomlet

In stock markets, as will be evident from the following table of changes in a few selected securities, the most striking individual feature has been a further sharp improvement in all South American issues. This is not altogether a new development, for in recent months the steady rise in fixed interest securities and stable industries has driven investors ever farther afield in the search for yield or capital appreciation, and the South American market is one of the sections to which they have turned their attention. A strong impetus was, however, given to the movement, which now deserves to be called a boomlet, by the decision of the Argentine Government to convert its 4½ per cent. and 5 per cent. internal loans to a 4 per cent. basis. Strictly this indicates no more than a decline in the domestic rates of interest, but it was held by the market as further evidence of the improvement in Latin American external trade of which there is ample evidence. The new

| | Nov. 24 | Oct. 27 | Change |
|---|---|---|---|
| Consols 2½% ... ... | 82⅛ | 82 3/16 | —7/16 |
| War Loan 3½% ... ... | 104½ | 106½ | —½ |
| Australian 5% 1945/75 ... | 104¼ | 104¼ | — |
| Argentine 3½% ... ... | 82 | 76 | +6 |
| Brazil 5% Fdg. 1914 ... | 47 | 41 | +6 |
| Peru Corp. 6% deb. ... | 41 | 32 | +10 |
| B.A. Great Southern ... | 9⅛ | 8¼ | +1¼ |
| Central Argentine Ord. ... | 7½ | 6 | +1½ |
| L.M.S. Ord. ... ... | 16½ | 15 | +1½ |
| Coast Lines ... ... | 13/7 | 9/3 | +4/- |
| British American Tob. ... | 4 3/32 | 4 1/32 | + 5/16 |
| Mex. Eagle ... ... | 11/9 | 12/6 | —9d. |
| Royal Dutch ... ... | 23¼ | 23 | +¼ |

British Government meat contract, for example, provides for substantial purchases from Argentina. In the first eight months of 1941, indeed, the Argentine had a favourable trade balance of as much as 228 million pesos, compared with a moderate surplus of 26 million pesos in the corresponding period of 1940.

### Dollars for Debt Repatriation?

This remarkable improvement in the exchange position, which has been brought about as much by a curtailment of imports as by a revival of exports, has naturally revived the discussion of a possible repatriation either of Government bonds or of the British-owned railways. In the case of Argentina, which is well placed to supply this country with many essential commodities, such as wool and meat, sufficient sterling may be accumulating on the special account to permit some such move. On the other hand, the rise has been equally marked in the securities of countries such as Brazil, which are still extremely short of sterling, the improvement in their exchange position being almost entirely in trade with the United States. In such cases, the market has obviously been speculating on the possibility of dollar balances being used for the redemption of sterling debt. This is even true to some extent in the case of Argentina. If the South American countries should decide that debt redemption offered the most profitable use of their accumulating dollars, there would presumably be no technical obstacle to their conversion into sterling for this purpose. At the same time, there is nothing to suggest that any such triangular currency arrangement is in fact contemplated, apart from an oblique hint from the Argentine Finance Minister.

### The Trend of Profits

While markets generally have faced up well to not always favourable political news, the steady rise in Government securities has been checked for the time being. One explanation of this would, of course, be the reopening of the War Bond tap. The *Financial News* index of ordinary shares, on the other hand, has climbed to a new high level for the year of 80.9, an improvement of over 10 points on the year. No doubt this improvement can be partly explained as a levelling up of the yield structure in response to the recent advance in all fixed interest securities. It is none the less striking in view of the continued contraction in profits, the *Economist* index for the third quarter of this year declining to

101.9, against 105.1 in the previous quarter and 115.4 in the corresponding quarter of 1940. These figures, incidentally, compare with a peak of 131.7 in the second quarter of 1938, from which it is evident that E.P.T., superimposed on other factors, has done far more than merely prevent an expansion in total profits. All accounts now being published, however, cover profits in a period for the whole of which E.P.T. has been at 100 per cent., and there are indications that profits may now have grounded. It may be significant, for example that average ordinary dividends in the third quarter rose from 9.0 to 10.6 per cent. If dividends can now be regarded as stable, equities should at least keep in line with fixed interest stocks and may show relative improvement if the market once again begins to discount the profits of a post-war boom. The main uncertainty is liability to war damage contribution, the whole impact of which falls on the equity.

# Points from Published Accounts

**Bass, Ratcliff & Gretton**

We have before made the point that, while most companies charge War Damage Contributions to revenue and some debit them to reserves, only rarely has this new liability been treated as a capital item. Hitherto the outstanding exception has been provided by Covent Garden Properties. In this case shareholders were warned that the suspense account thus created would have to be dealt with after the war, though they were led to hope that this could be accomplished painlessly by application of a hypothetical appreciation in the value of the properties, which might be shown by a peace-time valuation. No such argument is advanced by the directors of Bass, Ratcliff & Gretton to justify contributions of £88,940 being entered on the assets side of the balance sheet. This departure from the common practice is the more difficult to understand since the company has reserves (including the carry-forward) of £2,642,953 —or £1,842,953 even if we set off against them the £800,000 goodwill item. These funds have actually been increased by £77,931 from the past year's profit, which amounts to £593,059 net, against £602,573. Allowing for the increased rate of income tax, this comparison indicates that true trading profits have expanded, and it is significant that the dividend is being maintained at 20 per cent., although payable free of tax. From the point of view of the investor, there are cogent objections against the tax-free method of payment in a period of mounting tax rates. In this case it is not readily apparent to the layman that the gross equivalent of the 20 per cent. payment made free of tax at 10s. is actually greater than the gross equivalent of the 25 per cent. distribution made for 1938-39. In other words, the true return to shareholders is actually more generous than in the best of the pre-war years.

**Thompson Brothers (Bilston)**

It is unfortunate that a financial commentator should have chosen the results returned by Thompson Brothers (Bilston) to assist in explaining how the " tax cushion " works. The general theme, that so long as trading profits remain in the E.P.T. zone any contraction in them is borne by the tax collector, is sound enough. But the particular illustration was very much beside the point. The argument was that the trading profit of the company in question had fallen from £158,952 to £54,926, but that taxation had, by way of compensation, absorbed only £29,542 against £115,267. In fact, the earlier tax figure related to E.P.T. and income tax, and the later one to income tax alone ; for whereas the trading profit was stated a year ago subject to E.P.T., this time it has been determined after providing for that charge. This is made plain by the description applied to both the trading profit and the tax provision in the profit and loss account. There is, however, always the danger of confusion arising where an important change such as this is introduced without any alteration in the typographical lay-out. There are two easy ways of avoiding the danger—by inserting comparative figures for the previous year, or by incorporating a note of the change in the directors' report. As it is, we learn from the chairman's statement that " trading profit "—by which is obviously meant the profit before E.P.T., not the trading profit disclosed in the accounts—showed an increase, from which it follows that the total tax charge must have been even heavier than in 1939-40.

**United Dairies**

A large part of the United Dairies business is conducted through subsidiaries, which constitute a truly integral section of the undertaking. In the balance-sheet of June 30 last, the net interests in these companies are shown at £4,270,934. They represent, therefore, a very substantial proportion of the assets total of £7,982,441, and that being so, the lack of a consolidated balance-sheet is a regrettable omission. This is particularly the case because the company itself owns freeholds and leaseholds brought in at £2,726,629, a sum whose magnitude raises curiosity as to the composition of the assets held by the subsidiaries. More important, however, is the absence of a consolidated profit and loss account. In one way or another, the company's revenue is derived almost entirely from the subsidiaries. Out of total income of £522,838 dividend and interest receipts amount to £480,255, and as they are distinguished from income from temporary investments, it is reasonable to conclude that they relate mainly to payments from the subsidiaries. Similarly it may be taken that rents receivable, which figure as a credit of £128,660 in the profit and loss account of the parent company, appear, to a large extent at any rate, as an expense in the books of the subsidiaries. The earning power of the latter is, then, of vital importance ; but these accounts give no reliable clue to it. The 1939-40 report stated that the subsidiaries' profits had exceeded those of the preceding year, but added that in view of war damage and taxation liabilities, it had been deemed best to draw from them only sufficient dividends to maintain the usual 12½ per cent. ordinary dividend. This time shareholders are told that the profits of the subsidiary companies in total, after providing for A.R.P., and full contributions payable under the War Damage Act, 1941, whilst being below the previous year, amply cover the dividends declared for the year. These include an ordinary payment maintained at the previous rate. At first sight it might be assumed that these two references to the results of the subsidiaries, while constituting an admission of profits control, do at least afford some guide to the relative trading experience from year to year. This, however, is not so, for the amount involved by War Damage Contributions is not stated, and no information is volunteered as to the comparative showing made by profits as determined before providing for such contributions. The issue in future of a combined profits statement is to be commended.

**LAW**

# Legal Notes

## EMERGENCY LEGISLATION

*Mortgagor's Trustee in Bankruptcy—Not a Person "liable to pay the debt."*

In *Re Midland Bank, Ltd.'s Application* (1941, 3 All E.R. 299), a short point was decided by Uthwatt, J., under the Courts (Emergency Powers) Acts. A.B. mortgaged property to the Midland Bank. In 1941 a receiving order in bankruptcy was made against her, followed by an adjudication. The bank took out a summons (to which the mortgagor's trustee in bankruptcy was the respondent) asking to exercise all powers vested in them by the mortgage; the immediate desire was to appoint a receiver. The Court held that the position in law as between bankrupt and trustee was not clear. Owing to the bankruptcy proceedings, no action to recover the debt could be taken against the bankrupt, and on an order for discharge, the bankrupt would be released from the debt, whether it was proved or not. The trustee was in no way personally liable for the mortgage debt, although the equity of redemption was vested in him. The trustee was the only proper respondent. In those circumstances there was no person "liable to pay the debt." Similarly, when the equity of redemption had been assigned by the mortgagor and proceedings were taken against the assignee to enforce the security; in such circumstances the assignee could not obtain relief under the Act.

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*Application by Solicitor of Corporate Body—Validity of Appointment.*

Normally the internal regulations of companies are no concern of third parties. The presumption is that they have been complied with unless the contrary appears on the proceedings or document concerned. But where proceedings are brought on behalf of a corporate body by its solicitor, he must have been properly appointed. In *Re Mutual Benefit Building Society's Application* (1941, 3 All E.R. 313), the respondent mortgagors asked the Court to strike out of a summons the name of the applicants, the R.M.B. Building Society. The Society, as mortgagees, had asked for leave to proceed to exercise their powers against the mortgagors, by taking possession or appointing a receiver. At the Society's annual general meeting, three directors were appointed in place of the former directors. It was proved that the directors were not validly appointed, and therefore their appointment of the solicitor was invalid. Uthwatt, J., decided that although the Courts (Emergency Powers) Act was directed to procedural matters, it was open to a mortgagor respondent to question the validity of the solicitor's appointment.

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## EXECUTORSHIP LAW AND TRUSTS

*Trustee Act, 1925, Section 57—Powers of Trustees—"Blended fund"—Power of Court.*

Even where by the terms of a will or trust deed a trustee has no power to do certain things, the widest jurisdiction is given to the Court to confer on trustees the power necessary for the purpose. This benevolent jurisdiction is set out in Section 57 (1) of the Trustee Act, 1925. The transaction contemplated must be shown to be expedient, and the power may be granted on terms and subject to conditions. In *Re Harvey, Westminster Bank* v. *Askwith* (1941, 3 All E.R. 284), the trustee was granted authority under this Section in peculiar circumstances. The testatrix, A. H., made her will in February, 1931, and died a month later; her will was proved in July, 1931. Her residuary estate was to be held for the benefit of any home or homes founded by her or her sister, E. H., or for the foundation of a home "for needy poor and aged persons of both sexes of genteel birth who during their earlier life had not been able to earn a sufficient income adequate to provide for their old age," to be called the T. H. Memorial Home. E. H. (sister of the first testatrix) made her will in March, 1932, containing a residuary bequest identical with that of her sister; she died in 1936, and probate was obtained in the same year. Neither testatrix founded any home during her lifetime. The Westminster Bank, as sole remaining trustee of both wills, asked the Court whether, on the construction of the wills, the residuary trust funds could be blended into one fund for the foundation of a single home for the purpose mentioned in the wills, or if not, whether they could be authorised so to do.

Bennett, J., refused to hold that under the power of either will the trustee could blend the trust funds. But power was given him by the section of the Trustee Act to give leave to the trustee and he authorised the trustee to blend the two trust funds accordingly.

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*Probate—Partial Intestacy—Crown's Claim to Grant of Administration—Administration of Estates Act, 1925—Non-contentious Probate Rules.*

In granting administration, a person with a greater interest has priority, so that no one low down in the list can obtain a grant until he has cleared off those in priority to him. In *The Estate of Hanley* (1941, 3 All E.R. 301), a testatrix had given certain legacies, but had appointed no executor and left no kin. The Crown claimed the undisposed of residue as *bona vacantia*, and asked that the Crown assume its place in the fourth category of persons entitled to administration under rule 119 (namely, as the person entitled on intestacy when the residue is not wholly disposed of) and not in the eighth category, where the Crown is expressly mentioned. This was in order to avoid the citation of creditors and legatees. The Court of Appeal held, however, that the Crown was only entitled under the eighth category, so that the citation of creditors and legatees could not be dispensed with. Goddard, L.J., pointed out that if the testatrix had left the money direct to the Crown, as some testators had been known to do, the Crown would have come in under the fourth class as the ultimate residuary legatee. But as the Crown took merely under its right to *bona vacantia*, it did not come within the fourth category.

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*Settlement "free of all deductions"—Right to deduct income tax.*

As a general rule, a testamentary disposition "free of all deductions" does not free the beneficiary from the liability to pay the income tax attracted by the gift. But the context may disclose the testator's intentions to the contrary. In *Re Cowlishaw* (1939, Ch.D. 654), Bennett, J., was able to find from the context a positive direction that he intended to include income tax as a "deduction" when he gave an annuity "free of all deductions." But in the recent case of *Re Best's*

*Marriage Settlement* (1941, 3 All E.R. 315), Bennett, J., found there was nothing in the context to exclude the general rule. By a settlement in 1935, the settlor covenanted with the trustees that after his death his personal representatives should pay to his wife " such a sum as shall after all deductions amount to £300 per annum." On behalf of the widow it was contended, (*a*) that part of a conveyancing phrase commonly used to escape the provisions of the Income Tax Act, 1918, All Schedules Rules, had been used by the settlor; (*b*) alternatively, if the word " deductions " did not include income tax, it was meaningless. The Court found that only half the conveyancing phrase referred to had been used, and unless the whole phrase were used, no intention to deduct tax could be inferred; also that there were other expenses to be covered by the term " deductions," such as those occasioned by realisation of capital (as authorised by the settlement) to make up the annual sum. Therefore, as there was no indication in the context that " deductions " included income tax, the trustees, when paying the annuity, were entitled to deduct income tax.

# The Emergency Acts and Orders

*In our November, 1939, issue we published the first instalment of a comprehensive guide to the wartime enactments and Orders which most concern the accountant. The twenty-fifth instalment is given below. The summaries are not intended to be exhaustive, but only to give the main content of an Act or Order, the full text of which should be consulted if details are required.*

## ACTS

*Solicitors Act*, 1941.

(See pages 41-43 of this issue.)

## ORDERS

### COMPANIES

*No.* 1778. *Order in Council adding Regulations* 6 *and* 7 *to the Defence* (*Companies*) *Regulations*, 1940.

Transfer deeds may be destroyed not earlier than three years after the transfer had effect, provided that this is done in good faith and without notice of any claim to which the deeds might be relevant. Section 314 (1) of the Companies Act, 1929, which provides for the disposal of documents in the custody of the Registrar two years after the dissolution of a company, is to apply in respect of any company dissolved, whether under that Act or otherwise.

(See page 37 of this issue.)

### EXPORTS

*Nos.* 1770, 1820. *Export of Goods* (*Control*) *Orders*, 1941, *Nos.* 39 *and* 40.

Previous Export Control Orders are revoked and superseded by No. 1770. No. 1820 effects amendments to the Schedule.

(See ACCOUNTANCY, November, 1941, p. 35.)

### FINANCE

*No.* 1213. *Order in Council amending Regulation* 3*c of the Defence* (*Finance*) *Regulations* (*Isle of Man*), 1939.

The restriction on banking accounts of persons who have ceased to be enemies imposed by No. 1199 is inserted in the Isle of Man Regulations.

*No.* 1574. *Securities* (*Restrictions and Returns*) (*No.* 3) *Order*, 1941.

*No.* 1575. *Acquisition of Securities* (*No.* 5) *Order*, 1941.

Holdings of four South African stocks must be registered and transferred to the Treasury.

(See ACCOUNTANCY, September, 1941, p. 218, and November, p. 33.)

*No.* 1625. *Blocked Accounts* (*Authorised Investments*) (*No.* 3) *Order*, 1941.

The previous Order setting out the securities in which investments might be made from blocked accounts is revoked, and a new list substituted.

*No.*1779. *Order in Council amending the Defence* (*Finance*) *Regulations*, 1939.

Sterling accounts of former residents may be blocked. Further amendments are made in the Finance Regulations, including provision for determining the residential status of representatives of deceased persons.

(See page 39 of this issue.)

*No.* 1654. *Regulation of Payments* (*Consolidation*) *Order*, 1941.

All previous Regulation of Payments Orders are revoked and their provisions consolidated. Colombia is added to the countries covered by Central American accounts.

(See ACCOUNTANCY, July, 1941, p. 183.)

*No.* 1787. *Regulation of Payments* (*Exports to China*) *Order*, 1941.

Goods exported to China must be paid for in sterling from an account of an approved bank.

### INCOME TAX

*No.* 1667. *Deduction of Income Tax* (*Schedule E*) (*Amendment No.* 2) *Regulations*, 1941.

The Inspector may give general notice to an employer requiring him to make returns giving specified particulars of every wage-earner subject to half-yearly assessment who enters or leaves his employment. The return must be made within ten days in each case.

*No.* 1563. *U.S.A. Securities* (*Income Tax Relief*) *Regulations*, 1941.

Where a payment is made by the Treasury in respect of income arising from securities requisitioned under the Financial Powers (U.S.A. Securities) Act, 1941, to a person who is chargeable to income tax so far only as that income is received in or remitted to the United Kingdom, tax is not to be payable if the payment is remitted abroad immediately. If the amount is retained in the United Kingdom in a special bank account or in identified investments for the purpose of remittance abroad not later than six months after the Defence (Finance) Regulations expire, an assessment is to be raised but recovery of tax held over. If the payment is remitted abroad before the end of that period, the assessment is to be discharged.

(See ACCOUNTANCY, September, 1941, p. 218.)

### RETAIL TRADE

*No.* 1784. *Location of Retail Businesses Order*, 1941.

Except by licence of the Board of Trade, no retail business of any category specified may be carried on in the United Kingdom unless the premises were used for a retail business of that category between December 1, 1940, and October 23, 1941. The Order does not apply to trade in food, but includes hairdressing, beauty treatment, circulating libraries and auctioneers, as well as the sale of goods.

(See page 40 of this issue.)

### TRADING WITH THE ENEMY

*No.* 1589. *Trading with the Enemy* (*Specified Persons*) (*Amendment*) (*No.* 17) *Order*, 1941.

Further amendments are made in the schedule of persons deemed to be enemies.

(See ACCOUNTANCY, November, 1941. p, 35.)

# Society of Incorporated Accountants

## COUNCIL MEETINGS

TUESDAY, OCTOBER 28, 1941

Mr. Richard A. Witty (Vice-President) in the chair.

COUNCIL

The Council received with much regret a report of the death of Mr. Ralph Thomas Warwick, member of the Council, and a resolution of condolence was adopted in silence and ordered to be communicated to Mrs. R. T. Warwick and to Messrs. W. T. Walton and Son.

The Council learned with regret that Messrs. W. T. Walton and Son had also suffered a further loss by the death of the senior partner, Mr. T. R. G. Rowland.

CHARTERED INSTITUTE OF SECRETARIES

A report was received that the Chartered Institute of Secretaries had recently attained its fiftieth anniversary, and the following resolution was adopted :—

> The Council of the Society of Incorporated Accountants desires to extend its greetings to the Chartered Institute of Secretaries and to offer congratulations on the fiftieth anniversary of the foundation of that Institute. The Society deplores the severe loss of the Hall of the Institute by enemy action, and is assured that in the future, as in the past, the Chartered Institute of Secretaries will by its work and by its policy maintain and extend the status of confidence and prestige enjoyed by its members as Secretaries to Joint Stock Companies and other public bodies.

RESIGNATIONS

A report was received that the following resignations had been accepted with regret as from December 31, 1940 :—

ADAMSON, THOMAS (*Fellow*), Victoria, B.C.
MORGAN, HENRY REYNOLDS (*Associate*), London.

DEATHS

The Secretary reported with regret the death of each of the following members :—

AIKEN, ALEXANDER, LL.D. (*Fellow*), Johannesburg.
BAIRD, SAMUEL (*Fellow*), Belfast.
BOLLERS, JOHN (*Associate*), Georgetown, British Guiana.
BOURNE, REGINALD (*Associate*), London.
BRODIE, EDWARD MORTIMER (*Fellow*), Port Glasgow.
CLEMENCE, STANLEY (*Associate*), Rochdale.
DAVIS, KENNETH RANDALL, O.B.E. (*Fellow*), Bournemouth.
FULLER, SAMUEL RICHARD (*Fellow*), Leeds.
HARE, EDWARD SOLOMON (*Fellow*), Bristol.
HODGES, WILLIAM GEFFREY (*Associate*), Cape Town.
MAYHEW, HENRY JOHN (*Associate*), Hong Kong (previously London). (*Enemy action.*)
NELSON, WILLIAM ARTHUR (*Associate*), Wolverhampton.
NIXON, WILLIAM ALFRED (*Fellow*), Manchester.
OXLEY, HENRY (*Fellow*), Barnsley.
PEMBERTON, PERCY (*Associate*), Leeds.
PIDDUCK, ERNEST (*Fellow*), London.
PRYOR, EDGAR HARRY (*Associate*), Manchester.
RORRISON, JAMES WARD (*Fellow*), Chicago.
ROWLAND, THOMAS REGINALD GREGORY (*Fellow*), West Hartlepool.
WARWICK, RALPH THOMAS (*Fellow*), London.

THURSDAY, NOVEMBER 20, 1941

Present : Mr. Percy Toothill (President) in the chair, Mr. Richard A. Witty (Vice-President), Mr. F. J. Alban, Mr. Robert Bell, Mr. R. M. Branson, Mr. J. Paterson Brodie, Mr. W. Norman Bubb, Mr. W. Allison Davies, Mr. R. T. Dunlop, Mr. E. Cassleton Elliott, Mr. Alexander Hannah, Sir Thomas Kenns, Mr. Henry Morgan, Mr. Bertram Nelson, Mr. James Paterson, Mr. T. Harold Platts, Mr. R. E. Starkie, Mr. Joseph Stephenson, Mr. Joseph Turner, and Mr. A. A. Garrett (Secretary).

BRITISH RED CROSS AND ST. JOHN WAR ORGANISATION AND THE Y.M.C.A.

The Council resolved to contribute from the Society's funds a sum of 300 guineas to the British Red Cross Society and Order of St. John War Organisation, and 100 guineas to the Y.M.C.A. on behalf of all the members of the Society. The members will be asked at the annual general meeting in May, 1942, to confirm the action of the Council.

DEFERMENT OF CALLING UP

A report was received of the steps being taken by the Practising Accountants' Advisory Committee to deal with applications for the renewal of deferments of calling up of men engaged in the accountancy profession.

DEATHS

The Secretary reported the death of each of the following members :

GOWLING, ALFRED (*Associate*), Newton-le-Willows.
HARRIS, FRANK JAMES (*Associate*), London.
NICHOLSON, WILLIAM, C.C. (*Fellow*), London.
PENNINGTON, THOMAS EDWARD, O.B.E., D.C.M. (*Associate*), Gibraltar. (*Enemy action.*)
WOOD, THOMAS (*Fellow*), St. Helens.

It was resolved that a letter of sympathy be sent to Messrs. Beecroft, Son and Nicholson upon the death of Mr. William Nicholson, C.C., one of the original members of the Society.

## BOMBAY DISTRICT SOCIETY

The annual meeting of the Bombay Society was held recently. Mr. R. K. Dalal was elected President, Mr. N. J. Shah Vice-President, and Mr. K. S. Engineer Honorary Secretary and Treasurer. The District Society's office is now at 381, Hornby Road, Fort, Bombay.

## PERSONAL NOTES

Mr. Edmund Lund, M.B.E., F.S.A.A., has completed twenty-one years' service as City Treasurer of Carlisle.

Mr. Bertram Nelson, F.S.A.A., has been appointed a member of the Council of the University of Liverpool.

Paymaster-Lieutenant Norman Cassleton Elliot, R.N.V.R., has been mentioned in despatches.

Mr. C. Clive Saxton, F.S.A.A., of Magdalen College, has proceeded to the degrees of M.A. and D.Phil. in the University of Oxford.

## OBITUARY

### LAURENCE BRUCE BELL

We regret to learn of the death of Mr. Laurence Bruce Bell, C.A., senior partner of the firm of Wm. Home Cook and Co., C.A. He was for twenty years Secretary of the Society of Accountants in Edinburgh, and in that capacity was frequently in contact with the Secretary of the Scottish branch of the Society of Incorporated Accountants, as well as with the Society's head office in London. He represented the Edinburgh Society at many conferences of Chartered and Incorporated Accountants on matters of professional interest and his advice and co-operation were always most helpful. He retired from the Secretaryship owing to ill health in 1939.

Mr. Bell was an Income Tax Commissioner and had been honorary treasurer of the Chamber of Commerce for a number of years, besides taking great practical interest in societies and institutions of a beneficent nature.

### WILLIAM NICHOLSON

It is with deep regret that we record the death on November 3 of Mr. William Nicholson, C.C., F.S.A.A., who was one of the few surviving original members of the Society of Incorporated Accountants. He had been a member of the firm of Beecroft, Sons & Nicholson, of 32a, Weymouth Street, London, W.1 (formerly of 12, Wood Street, Cheapside, E.C.2) for about fifty years, and had he lived until next year, he would have celebrated the centenary of that firm's foundation. He was also a partner in the firm of Nicholson, Beecroft & Co., of 5, Cheapside, E.C.2. Mr. Nicholson was a well-known figure in the City of London, with which he had been closely associated for the last sixty-five years. He took a great interest in the affairs of the Society and was always happy, at any time, to discuss complex questions with any of the junior members, who will remember his help in that direction on many occasions. He was also a member of the City Corporation, where he represented the Ward of Cripplegate Within for some twenty years. He was a Past Master of the Curriers' Company, and during the last war he was one of the founders and a very active member of the National Guard.